SUBCOMMITTEE NO. 4 Agenda

Senator Mark DeSaulnier, Chair
Senator Tom Harman
Senator Gloria Negrete McLeod

Thursday, March 25, 2010
9:30 a.m. or Upon Adjournment of Session
Room 112

Consultant: Kris Kuzmich

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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AGENDA

*(Recommended Vote-Only Items indicated by *)*

Public Comment

8940 MILITARY DEPARTMENT

Department Overview. The California Military Department (CMD) is responsible for the command, leadership, and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard (CNG) is to provide military service supporting this state and the nation. The three missions of the CNG are to provide: (1) mission ready forces to the federal government as directed by the President; (2) emergency public safety support to civil authorities as directed by the Governor; and (3) support to the community as approved by proper authorities. The CMD is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the CMD also receives Federal Funding directly from the Department of Defense.

Budget Overview. The January Governor's Budget provides CMD with 865.5 positions and $143.1 million ($45.7 million GF). This is an increase of one position and $5.5 million.

Issues Proposed for Vote Only:

Issue 1 – State Active Duty (SAD) Employee Compensation (BCP #1)

Governor's Budget Request. The Governor requests a baseline augmentation of $1.454 million ($760,000 GF and $694,000 Federal Trust Fund) to cover the SAD compensation increases to be granted effective January 2, 2010, and estimated to be granted January 2, 2011.

Staff Comment. Per state statute, pay for SAD employees must be based upon military pay increases granted by Congress; additional compensation adjustments are also mandated due to a congressionally-approved increase in the military allowance for housing and subsistence.

Issue 2 – Federal Funds and Positions for Force Protection (BCP #2)

Governor's Budget Request. The Governor requests continuation of reimbursement authority in 2010-11 of $3.5 million (federal funds) and the re-establishment of 47 limited-term positions to provide security of CMD installations and Army Aviation Airfields.

Staff Comment. The CNG has eight sites which have been designated by the Department of the Army and National Guard Bureau (NGB) as Mission Essential Vulnerability Areas (MEVAs). The NGB has validated and agreed to federally reimburse the costs of providing security staffing at these MEVAs.

Issue 3 – CalEMA (Homeland Security) Training and Exercise Program (BCP #3)

Governor's Budget Request. The Governor requests continuation of reimbursement authority in 2010-11 of $1.6 million (federal grant funds) and re-establishment of 12 limited-term positions to execute a continuing interagency agreement between the CMD and CalEMA for staffing support and operating expenses to manage statewide terrorism training and exercise programs.

Staff Comment. This request would essentially extend the 12 positions, first approved in 2007-08 as three-year limited-term and therefore expiring on June 30, 2010, for one year or until June 30, 2011, consistent with the interagency agreement between CMD and CalEMA. Federal Department of Homeland Security grant funds reimburse costs associated with the positions.

Staff Recommendation: APPROVE BCPs 1, 2, and 3.

VOTE:

Issue Proposed for Discussion / Vote:

Issue 4 – Consolidated Headquarters Complex (COBCP #1)

Governor's Budget Request. The Governor requests $49.1 million ($47.3 million lease revenue bonds and $1.8 million Armory Fund) to fund the state's share of a project to provide the CMD with a 125,000 square foot Consolidated Headquarters Complex (HQ Complex) and a 22,600 square foot storage facility on 30 acres of land at Mather Field in eastern Sacramento County.

Prior Budget Appropriations. In 2006-07, approved a COBCP totaling $1 million (GF) to acquire a purchase option to reserve, for at least two years, the 30 acres of land at Mather Field for the HQ Complex. In 2007-08, approved an additional $100,000 to ensure that the purchase option could be secured.

Federal Funds. The federal government will fund $49.3 million for this first phase of the overall project, including $1.8 million to reimburse the Armory Fund for design costs. At a future date, the CMD indicates that the U.S. Department of Defense (DoD) will fully fund the second and third phase expansions of the HQ Complex, expanding it to 300,000 square feet and allowing the consolidation of all headquarters staff and elimination of additional lease payments.

Background. Detailed federal guidelines, both statutory and regulatory, govern the organization, funding, and operation of the National Guard. While federal regulations dictate much of the Guard's organization and function, control of Guard personnel and units remains within the state, unless a unit is federalized – typically to support operations overseas. It is considered a state responsibility to house the Guard.

The CMD currently owns or leases seven facilities located throughout the state for its headquarters functions; of the seven, four are leased, two are federally-owned, and one is state-owned. These multiple locations result in inefficiency, cause coordination problems, and reduce the overall readiness of the CMD to respond to state emergency missions and federal mobilization requirements. None of the leased facilities are able to protect CMD personnel to the current federal standards for force protection, which are required of all leased buildings by DoD or other governmental agencies and must have the same level of force protection as DoD-owned buildings. These force protection requirements also apply to both newly-leased buildings and extensions of existing leases, and include certain space requirements and sufficient standoffs or setbacks. As a result, the existing CMD Sacramento Headquarters facility lease cannot be extended beyond its current 2017 expiration and identification of a new facility is mandatory.

The HQ Complex is designed to improve the CMD's response to state emergencies, comply with federal force protection standards and eliminate facility lease payments on the CMD's main Sacramento facility. This request provides lease revenue bond authority in 2010-11 to allow Preliminary Plans to be initiated in the budget year. The Administration presents that, approval of this authority in 2010-11 will permit the HQ Complex project to remain on track for completion prior to the current building's lease expiration in 2017. Further, it will allow for property acquisition to occur close enough to the start of construction that lease revenue financing can be used to execute the purchase option rather than having to seek GF.

Figure 1 illustrates the $1.172 million (GF) in estimated increased annual costs to the state for the proposed HQ Complex versus the current leased facility:

Figure 1

	CURRENT FACILITIES	HQ COMPLEX
Lease Costs	$2.8 million	
Debt Payment		$3.8 million
a. Maintenance/Repair	$344,000	$678,000
b. Utility	$468,000	$477,000
Estimated State Cost (a + b less 50% Federal Share of Cost)	$406,000	$578,000*
Total	$3.206 million	$4.378 million

* The CMD staff indicates that the net increase could be smaller as some parts of the new HQ Complex will receive up to 75 percent federal funds.

Staff Comment. Staff agrees that having the CMD located at seven separate facilities across the state is inefficient and that federal force protection standards make a move to a new HQ facility mandatory. A legitimate question can be raised, however, about the timing of this request and why the Legislature must act now to address a problem that does not come due until 2017 when the existing facility lease can no longer be renewed. In response, the CMD staff presented compelling information, including that receiving authority for the project in 2010-11 is critical because: (1) the federal government requires property acquisition authority as a good faith investment by the state <u>before</u> it will authorize planning and design expenditures and the acceleration of construction funding; and (2) the existing purchase option will expire June 25, 2012. Bonds cannot be sold until design has been largely completed (~18 months), and it is these bond proceeds that will be used to acquire the property. Should this date be missed, the state would risk losing the property. Further, while it is an option for the state to seek a purchase extension from the current property owner, it is not certain that an extension is obtainable much less at how large of an increased cost.

Staff notes that the construct of this request is not the standard approach used in the past for lease revenue bond financing. In the past, the Pooled Money Investment Board (PMIB) was used to provide interim financing to cover the costs associated with a project until bonds can be sold. However, the PMIB is no longer available for these purposes due to the state's overall cash flow crisis. Therefore, the Administration is working to develop a different interim financing method to cover the design work associated with the HQ Complex. That interim financing method will be finalized by this summer and approval of this request will grant the Administration the authority to sell the lease revenue bonds at the end of the design phase which will be in the 2011-12 Fiscal Year and keep the HQ Complex project on track for completion prior to the current building's lease expiration in 2017.

It is also worth noting that the need for the CMD Headquarters to move from its current leased facility in Sacramento is real; securing other leased space is not an option as the costs are upwards of $7 million annually which is well beyond either current facility costs or projected annual costs associated with the proposed HQ Complex. Further, CMD indicates that there likely are not any leasable facilities that meet the DoD's force protection requirements. Finally, staff notes that the Legislature essentially approved the HQ Complex project in 2006-07 and, in 2007-08 when faced with an additional funding request, again reaffirmed its support for this project.

Staff Recommendation: APPROVE COBCP #1.

VOTE:

2310 OFFICE OF REAL ESTATE APPRAISERS

Department Overview. The mission of the Office of Real Estate Appraisers (OREA) is to ensure the competency and integrity of real estate appraisers through a program of licensure and enforcement. Established in 1990, OREA is entirely funded by licensing fees and is a single program with two core components: (1) licensing and (2) enforcement. The Licensing Unit sets the minimum requirements for education and experience; the Enforcement Unit investigates the background of applicants and licensees to ensure they are fit for licensure as well as complaints of violations of national appraisal standards filed against licensed appraisers. OREA is also responsible for the accreditation of educational courses and providers for real estate appraisers.

Budget Overview. The January Governor's Budget provides OREA with 33.6 authorized positions and $5.125 million (Real Estate Appraisers Fund and reimbursements). This is an increase of one position and $583,000.

Issue Proposed for Vote Only:

Issue 1 – Regulation of Appraisal Management Companies (BCP #1)

Governor's Budget Request. The Governor requests $205,000 (Real Estate Appraisers Fund) and one position to comply with the requirements of Chapter 173, Statutes of 2009 (SB 237) pertaining to registration of Appraisal Management Companies (AMCs). Included in the $205,000, in 2010-11, is $60,000 in one-time expenditures for temporary help to handle the initial influx of AMC registration applicants. The ongoing cost of this request is $143,000 and one position.

Background. The federal Home Valuation Code of Conduct (HVCC) became effective May 1, 2009. The intent of the HVCC is to enhance the independence and accuracy of the appraisal process, and provide added protections for homebuyers, mortgage investors, and the housing market. Any lender that sells a mortgage to Fannie Mae or Freddie Mac must adhere to the HVCC. Under the HVCC, the process of selecting an appraiser has been isolated from the persons who are compensated based on whether a loan is approved (i.e., lenders cannot accept an appraisal report completed by an appraiser selected, retained, or compensated by mortgage broker or real estate agent). While there is no requirement that a lender contract with an AMC, since the implementation of the HVCC, most lenders have opted to utilize the services of AMCs.

As of January 1, 2010, Chapter 173, Statutes of 2009 (SB 237) requires AMCs to register with OREA and subjects them to the provisions of the Real Estate Appraisers Licensing and Certification Law. Chapter 173 also requires OREA to (1) adopt regulations governing the implementation of the registration process and

(2) establish registration fees sufficient to cover administrative costs. OREA estimates that 150 AMCs (of the 250s AMCs operating nationally) will register in California. OREA is proposing an annual registration/renewal fee of $800. As of March 12, 2010, OREA reports that registration applications have been received from 70 AMCs.

Staff Comment. Chapter 173 represents new workload for OREA as AMCs were heretofore unregulated. The one-time temporary help and ongoing new position contained in this request are warranted even in consideration of the recent downturn in the economy. OREA has seen a decrease in the overall number of licensees: 15,099 licensees as of February 26, 2010, which represents a decrease of roughly 2,500 since January 1, 2009, and 25 percent overall since January 1, 2007. The largest drop off in licensees has been in the Appraiser Trainee category, indicating that fewer individuals are entering the profession. However, the number of Certified Residential Appraisers (may appraise any 1-4 family property without regard to transaction value or complexity; and non-residential property with a transaction value up to $250,000) has actually increased by nearly 2,000 licensees during the same period (January 1, 2007 to February 26, 2010). Further, concurrent with the downturn in the economy, OREA's enforcement workload has increased. This increased workload is separate from the new workload associated with regulating AMCs, as OREA receives complaints against existing licensees for fraudulent and/or negligent activity. It is also worth noting that OREA expects new enforcement complaints from licensed appraisers that allege illegal pressuring or unethical business practices being committed by AMCs.

Staff Recommendation: APPROVE BCP 1.

VOTE:

2320 DEPARTMENT OF REAL ESTATE

Department Overview. A primary objective of the Department of Real Estate (DRE) is to protect the public in real estate transactions and provide licensing, regulatory, and subdivision services to the real estate industries. The DRE is entirely special funded (Real Estate Fund) and derives its revenues from examination, license, and subdivision fees. The core functions of the DRE are to administer license examinations, issue real estate licenses, regulate real estate licensees, and qualify subdivision offerings.

Condition of the Real Estate Fund. At its April 23, 2009, hearing, this subcommittee examined the condition of the Real Estate Fund (RE Fund). At that time, the LAO estimated that the RE Fund would end the 2009-10 fiscal year with a $500,000 reserve and would become insolvent shortly thereafter. To address this issue, DRE increased fees to the statutory maximum effective July 1, 2009. This increased fee revenue, in combination with the new endorsement fee revenue associated with the budget request discussed below, has resulted in forecasted stability for the RE Fund.

Budget Overview. The January Governor's Budget provides DRE with 378.7 positions and $47.2 million (RE Fund and reimbursements). This is an increase of 27 positions and $6 million.

Issue Proposed for Discussion / Vote:

Issue 1 – SB 36 Mortgage Loan Originator Licensure (SAFE Act) (BCP #1)

Governor's Budget Request. The Governor requests $2.8 million (RE Fund) and 27 positions to implement the federally mandated Secure and Fair Enforcement Licensing Act of 2008 (SAFE Act) which requires states to implement a new licensing program for mortgage loan originators (MLOs).

Background. The federally mandated SAFE Act requires all states to license and register their MLOs through a nationwide registry called the National Mortgage Licensing System (NMLS); prior to the enactment of the SAFE Act, state participation in the NMLS was voluntary. The SAFE Act creates a distinction between MLOs who are employed by depository institutions or subsidiaries of depository institutions, and all other MLOs. Any state failing to voluntarily comply with the SAFE Act risks federal intervention and loss of its existing authority to regulate the mortgage-related activities of its licensees.

Chapter 160, Statutes of 2009 (SB 36) brought the state into compliance with the SAFE Act by requiring those engaging in MLO activities to obtain a license from the Department of Corporations or, if a real estate licensee, obtain a license endorsement from the DRE. This request pertains to the DRE portion of SAFE Act compliance; this subcommittee will hear a request from the Department of Corporations for its area of responsibility on April 29.

The SAFE Act requirements are similar to, but somewhat different from, the requirements for licensure under California's Real Estate Law. Under the SAFE Act, licensed real estate salespersons and brokers who wish to continue engaging in MLO activities must undergo brand new background checks and take different continuing education classes. Licensees will also have to continue to meet the SAFE Act's personal character requirements on an annual basis in order to remain eligible to retain their license endorsements. Corporations engaged in MLO activities will have to register with NMLSR and obtain a license endorsement for their company. Corporations licensed under the Real Estate Law will also have to ensure that each of their MLO employees obtains an individual MLO license endorsement.

Beginning on January 1, 2010, Chapter 160 requires any individual who wishes to perform MLO activities in California under the authority of their real estate license to notify DRE of their intent to do so no later than January 31, 2010. The DRE was scheduled to transition to the NMLS on March 2, 2010, and by December 31, 2010, approximately 39,407 real estate licensees who perform MLO activities in California must obtain a real estate license endorsement from DRE and be registered on the NMLS. Applicants will be charged an endorsement fee of $300 to cover DRE administration costs.

Staff Comment. In approving SB 36 last year, the Legislature approached SAFE Act compliance in a narrow sense by requiring a new endorsement on existing real estate licenses. Staff notes that while this approach has resulted in the least disruption to existing systems and minimized compliance costs to both the state and licensees, the SAFE Act represents new workload for DRE. The 27 positions the DRE is requesting in 2010-11 will be focused on SAFE Act implementation workload, including licensing and enforcement activities and modifications to existing information technology and telecommunication systems. The DRE also indicates it will likely have another request in 2011-12 for additional positions due to additional SAFE Act implementation workload. Finally, DRE reports, consistent with the information reported by the Office of Real Estate Appraisers, that its enforcement workload has increased with the downturn in the economy, especially with regard to "creative" real estate transactions that historically increase during a down market.

The DRE also faces facilities issues which remain unresolved from last year and will only become further exacerbated should the 27 positions in this request be added to DRE, let alone the future positions DRE has indicated will be needed for SAFE Act implementation. As part of the 2009-10 budget, the Governor requested a one-time augmentation of $1 million to partially cover the estimated costs ($1.3-$1.5 million) to relocate and consolidate DRE's downtown Sacramento

Headquarters Office and Examination Center at a new location. At that time, staff did not necessarily dispute DRE's claim that the existing facilities do not meet the long-term needs of the department, given health and safety concerns, deterioration problems, and space constraints at the current location, and once increased rent and the cost of a double move were factored in. However, this subcommittee subsequently rejected the request given the structural deficit in the RE Fund.

The DRE is not requesting an augmentation in 2010-11 to cover the costs of relocating and consolidating its facilities. Rather, recently DRE began work with the Department of General Services (DGS) to secure a new facility in Sacramento. DGS has informed DRE that the earliest it could expect to move would be 12-18 months, effectively pushing the relocation and consolidation to 2011-12. DRE staff presents that the "soft" real estate market should allow it to pursue the consolidation and relocation at less cost than proposed in 2009-10 because landlords will cover a greater portion of the tenant improvement costs.

While it is difficult to estimate the "savings" possible by shifting tenant improvement costs from DRE to the new landlord, in the 2009-10 request tenant improvement costs represented 22 percent of the $3.38 per square foot lease payment (for space of 63,678 square feet). The 2009-10 request also detailed expenses of over $1 million related to the relocation and consolidation including for moving, telephones and data, supplies, and a modular furniture system. Therefore, even under the best case scenario of a landlord covering additional, if not all, tenant improvements, DRE is likely looking at significant costs related to the relocation and consolidation. Staff therefore recommends that DRE not attempt to absorb these costs in its budget via salary savings or delayed expenditures, which could cause a decrease in consumer protection due to delayed investigations, and instead for DRE to present a formal request as part of the 2011-12 budget process so this subcommittee is fully informed of the costs related to the consolidation and relocation.

Committee Questions. Based on the above comments, the Committee may wish the Administration and DRE to provide responses to the following questions:

1. What is the status of DRE's transition to the NMLS? Did it occur as scheduled on March 2, 2010?
2. Given that the positions in this request will not be approved until July 1, 2010, how is DRE staffing the initial phases of SAFE Act compliance?
3. What is the current status of DRE's effort to relocate and consolidate its offices?

Staff Recommendation: APPROVE.

VOTE:

8955 DEPARTMENT OF VETERANS AFFAIRS

Department Overview: The California Department of Veterans Affairs (CDVA) promotes and delivers benefits to California veterans and their families. More specifically, the CDVA provides: (1) California veterans and their families with aid and assistance in presenting their claims for veterans' benefits under the laws of the United States; (2) California veterans with beneficial opportunities through direct low-cost loans to acquire farms and homes; and (3) the state's aged and disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment at the California Veterans Homes. The CDVA operates veterans' homes in Yountville (Napa County), Barstow (San Bernardino County), and Chula Vista (San Diego County). The homes provide medical care, rehabilitation, and residential home services.

Budget Overview: The January Governor's Budget proposes to activate business operations and begin admissions at the veterans' homes in West Los Angeles, Lancaster and Ventura. The Governor also proposes to provide resources and staffing related to the construction of two new homes, in Redding and Fresno. The January Governor's Budget provides CDVA with 2,410.5 positions and $421.8 million ($236 million GF). These increases primarily reflect the planned activation of the new veterans' homes.

The construction cost of these homes was/is funded with $50 million in general obligation bonds available through Proposition 16 (2000), $162 million in lease-revenue bonds (most recently amended by Chapter 824, Statutes of 2004 [AB 1077]), and federal funds.

Issues Proposed for Vote Only:

Issue 1 – Convert Contracted Food Purchasing, Preparation, and Nutrition Services to Civil Service Positions (BCP #5)

Governor's Budget Request. The Governor requests to convert the shared agreement for food purchasing, preparation, and nutrition service operations with a net zero GF impact as follows: (1) VHC-Barstow – 24.5 positions and a funding augmentation of $154,000 in 2010-11 and $131,000 in 2011-12; and (2) VHC-Chula Vista – 34.5 positions and a reduction of $154,000 in 2010-11 and $131,000 in 2011-12.

Background. The VHC-Barstow and VHC-Chula Vista have contracted for food purchasing, preparation, and nutrition services since they opened in 1996 and 2000, respectively. The initial contracts were permitted because the services within the new homes constituted a new function under Government Code 191130(b)(2). After the initial three year contract period, CDVA justified contracted operations with cost savings compared to civil service operations. However, the proposed cost savings personal services shared contract was disapproved by the State Personnel Board on July 1, 2009 and is under appeal. Until the appeal is decided, the intended contract cannot be decided and an interim emergency contract is in place. Emergency contracts, however, are intended to be temporary. CDVA indicates that converting is a legally compliant alternative that also ensures delivery of food purchasing, preparation, and nutritional services in compliance with federal and state mandates and regulations.

Issue 2 – Title 38 Apprenticeship and On-the-Job Training Program (BCP #6)

Governor's Budget Request. The Governor requests one position and expenditure authority of $120,000 (federal funds) to expand California State Approving Agency for Veterans Education (CSAAVE) services to include outreach activities and approval of apprenticeship programs and on-the-job courses.

Background. CDVA is the CSAAVE responsible for determining what programs are approved for use of veterans' education benefits under the federal GI Bill. The 2009-10 budget transferred oversight responsibilities and $1.5 million (federal funds) for CSAAVE from the Department of Consumer Affairs to CDVA. This request expands the oversight to include apprenticeship programs and on-the-job courses.

Issue 3 – VHC-Yountville Fire Alarm System Upgrade Budget Re-Appropriation (COBCP #1)

Governor's Budget Request. The Governor requests a re-appropriation of $222,000 for working drawings and a re-appropriation of $2.235 million for the construction phase of a project to purchase and install a new addressable fire alarm system in seven veteran-occupied buildings and the acute care center at the VHC-Yountville. This project will also provide a central computer system with sufficient capacity to relay the detail provided by the new fire alarm system. Total project costs of $2.574 million include $117,000 provided for preliminary plans in 2008-09. The federal government is providing 60 percent of the funding for this project, or $1.574 million; the state cost is $1.027 million (GF).

2009-10 Budget. Approved Governor's request for $2.2 million ($688,000 GF and $1.5 million federal funds) for the construction phase of the VHC-Yountville Fire Alarm System Upgrade.

Background. Fire/Life/Safety codes for new residential buildings require the use of addressable smoke detectors in each unit. An addressable smoke detector alerts authorities to the presence of smoke and directs them to the exact location. This request is a re-appropriation for a previously approved project. Due to changes in the scope of the project, including the closure of the acute care facility at VHC-Yountville in 2009, CDVA was unable to complete working drawings and construction within its existing authority; hence this request for authority for both phases in 2010-11.

Staff Comment. The Administration indicates that the scope change in this project will be considered through a Public Works Board (PWB) process. Further, while it is possible that some costs have decreased (i.e., due to the closure of the acute care facility) it is also likely that technology costs have increased making the total project cost the same. However, should savings be realized, the state share of savings will revert to the GF. Finally, the PWB is required to provide 20-day notification to the Joint Legislative Budget Committee of any scope change, providing ample time and opportunity for the Legislature to monitor the scope (and costs) of this project.

Staff Recommendation: APPROVE BCP 5, BCP 6, and COBCP 1.

VOTE:

Issues Proposed for Discussion / Vote:

Issue 4 – Enterprise-Wide Veterans Home Information System (Ew-VHIS) Budget Re-Approprations (BCP #12)

Governor's Budget Request. The Governor requests re-appropriation of $6.5 million (GF) from 2007-08 and $216,000 (GF) from 2008-09 to fiscal years 2010-11 and 2011-12 to ensure sufficient project funding for the Ew-VHIS project to acquire an integrated commercial-off-the-shelf (COTS) solution to support the long-term clinical care, financial, and administrative operations of the California Veterans Homes.

2009-10 Budget. Approved the Governor's request for $1.3 million (GF) and 11 positions to convert expiring limited-term positions to permanent status in order to support the ongoing needs of the Ew-VHIS Project. Approved the Governor's request for $878,000 (GF) and conversion of eight limited-term information technology (IT) positions to permanent status to support the Project Management Office and CDVA's ongoing and future IT projects.

Background. The Ew-VHIS project is intended to acquire an integrated commercial-off-the-shelf (COTS) solution to support the long-term clinical care, financial, and administrative operations of the California Veterans Homes. The Ew-VHIS is a mission critical system necessary for the operation of the department and delivery of essential services to the veterans living in the homes.

In January 2007, the Office of the Chief Information Officer (OCIO) approved a Feasibility Study Report for the Ew-VHIS project. The 2007 Budget Act included funding of $10.3 million (GF) and 20.9 positions for the project. In January 2009, a subsequent Special Project Report (SPR) was approved by the OCIO that outlined the changes to the original project scope, schedules, and cost. These changes caused an 18-month delay to the overall project schedule. CDVA originally planned to complete the project by December 2011, but given the delays incurred, the completion date is now estimated as June 2013.

Additionally, in its prior effort to secure a COTS solution for the Ew-VHIS project, CDVA's request for proposal (RFP) required a solution that accommodated the delivery of both acute and long-term care. This was not a solution commonly available in the marketplace. As evidence of this, and in response to the RFP, only one bid was received and it proposed a solution that was highly customized and therefore more costly. In 2009, the acute care facility at VHC-Yountville was closed. This closure simplifies the Ew-VHIS project as CDVA's RFP is now solely for a long-term care solution. This is a solution that is readily available in the marketplace and CDVA staff indicates that current estimates are that the state will have multiple bidders on the new RFP (bids were due March 15, 2009). CDVA staff indicates that it will take three months to scope and score the received bids and CDVA expects to issue an "intent to award" by the end of June 2010. At that time, SPR No. 2, which will revise the Ew-VHIS project scope and costs, will be submitted to the OCIO. Following the OCIO's review of SPR 2, a Control Section 11 letter will be submitted to the Joint Legislative Budget Committee to formally notify the Legislature of net expenditure or savings and provide a detailed business proposal for the Ew-VHIS project.

Staff Comment. Staff notes no issue with CDVA's need to implement the Ew-VHIS system, as it is a mission-critical system. Further, the fact that CDVA is now pursuing an implementation strategy of the most "vanilla" system possible (i.e., little to no customization) will better serve the long-term interests of the state. However, the timing of this request in the 2010-11 budget process does not synchronize well with the timing of the current procurement process. A concern could legitimately be raised that by approving this request now the Legislature is providing authority for a project whose costs are not clearly defined and will not be until June 2010 or later. For instance, given the "de-scoping" of the project, it is possible that bids will be lower versus prior cost estimates and the entire re-appropriation amount in this request would not be needed. However, it is also possible that bids will come in at the budgeted amount due to the fact that the prior project scope (acute and long-term care) was not accurately reflected in the cost estimates. Additionally, several years have passed since the prior RFP. Staff notes, however, that under any scenario, the CDVA needs the budget authority in 2010-11 and 2011-12 to complete the Ew-VHIS procurement. The Legislature has also approved this project in prior budget years. It is also worth noting that the "backstop" available here is the Control Section 11 letter process, which will allow the Legislature to be kept informed of the Ew-VHIS project going forward, including its scope and costs. Therefore, staff recommends approval of this request to keep this critical project on track.

Committee Questions. Based on the above comments, the Committee may wish the Administration and CDVA to provide responses to the following questions:

1. The March 15th bid window has closed. Can the Administration provide more information about the number of bids received? Are the bids from viable vendors?
2. Does the CDVA have any better assessment of whether the simplification in scope will be accompanied by a reduction in the total cost of the project?
3. Does CDVA still estimate an "intent to award" by June 2010?

Staff Recommendation: APPROVE

VOTE:

Issue 5 – Veterans Home of California Greater Los Angeles Ventura County (VHC-GLAVC) Activation Phase IV (BCP #1)

Governor's Budget Request. The Governor requests an augmentation of 102.3 positions and $8.3 million (GF) in 2010-11 and 103 positions and $13.2 million in 2011-12 related to the phase-in implementation of the VHC-GLAVC project to continue construction, activate business, and begin admitting veterans. The 102.3 positions in 2010-11 will be distributed as follows: 92 positions in VHC-GLAVC and 10.3 positions in CDVA Headquarters (HQ) to address workload associated with the VHC-GLAVC facilities.

2009-10 Budget. Suspended opening of Adult Day Health Care services at the VHC-GLAVC veterans' homes and scored $1.8 million (GF) savings. Reduced the Governor's request for $18.5 (GF) and 181.6 positions for VHS-GLAVC Activation Phase III by $5 million (GF) in recognition of an approximately three-month delay in construction and associated delays in hiring for various levels of care at the homes.

Background. The VHC-GLAVC consists of Veterans Homes in Lancaster (VHC-Lancaster), Ventura (VHC-Ventura), and West Los Angeles (VHC-WLA). This request continues the phase-in implementation of the VHC-GLAVC project initially approved in 2007-08.

Home	Construction Complete	Level of Care	Licensed Beds	Opening Date
VHC-Ventura	Sept. 2009	RCFE	60	Jan. 2010
VHC-Lancaster	Sept. 2009	RCFE	60	Jan. 2010
VHC-West Los Angeles	May 2010	RCFE Skilled Nursing Memory Care SNF	84 252 60	Sept. 2010 2011-2012 2012-2013

The hiring and occupancy timelines have been updated to reflect a change in the Residential Care Facility for the Elderly (RCFE) admissions schedule in VHC-Lancaster and VHC-Ventura from three residents per month to eight residents per month; an indefinite delay in opening the Adult Day Health Care (ADHC) program; and a delay in opening the skilled nursing facility (SNF) in VHC-WLA from June 2010 to fiscal year 2011-12. The proposal also includes a reduction in personnel years specific to VHC-Lancaster and VHC-Ventura to reflect contracts for food services. The costs will be partially offset by estimated revenues of $3.4 million in federal per diem and fees for 2010-11.

Staff Comment. Staff agrees with the need to adequately and appropriately staff the VHC-GLAVC facilities. While CDVA staff presented that hiring and occupancy timeframes have been updated to reflect admission schedules and level-of-care offerings, it is not clear that all of the positions authorized in this request will be hired per the updated schedules which could create some GF "savings" that would revert at the end of the 2010-11 year. Given the condition of the GF fund, this may not be the wisest expenditure of scarce GF dollars and a better approach might be to hold this item open until May Revise, at which time a clearer picture would present as to the status of admissions at each of the VHC-GLAVC facilities and whether any savings are possible in 2010-11 similar to that scored in 2009-10.

In addition, staff notes that 10.3 of the positions in this request are for CDVA HQ, including one Information Officer III position in Legislative and Public Affairs. Since 2006-07, CDVA HQ has increased by 87.9 positions, from 267.8 positions to 355.7 positions. Of the 87.9 positions, 59.5 of those positions were in the Veterans Homes Division and 35.4 positions were in Distributed Administration (during the same period, 27 positions were eliminated in the Farm and Home program and 20 were established in the Veterans Services Program, netting to 87.9). Roughly one-third of the Veterans Home Division positions were related to the Ew-VHIS program which is discussed on page 14 of this agenda.

Committee Questions. Based on the above comments, the Committee may wish the Administration and CDVA to provide responses to the following questions:

1. Both VHC-Ventura County and VHC-Lancaster opened in January 2010. What is the current number of residents at each home?
2. Is construction of VHC-WLA on schedule to be completed by May 2010? When will resident admissions begin?
3. This request reflects a ratio of roughly one HQ position for every nine posiitons at the VHC-GLAVC facilities. Is this ratio similar to the experience when other veterans homes completed construction and began patient admissions?

Staff Recommendation: HOLD OPEN pending receipt of additional information from the Administration and Legislative Analyst's Office to determine if VHC-GLAVC staffing resources will be fully expended as scheduled in 2010-11 and if the staffing resources at CDVA HQ are justified.

Issue 6 – Veterans Home of California Redding (VHC-Redding) and Veterans Home of California Fresno (VHC-Fresno) – Construction Completion and Pre-Activation Phase II (BCPs #2 and #3, respectively)

The Governor requests the following:

	VHC-Redding	VHC-Fresno
2010-11 Budget: Construction Completion & Pre-Activation Phase II	9.3 positions* $1.3 million (GF)	8.5 positions** $1 million (GF)
2011-12 Budget: Construction Completion & Pre-Activation Phase II	19 positions $2.4 million (GF)	16 positions $2 million (GF)
Level of Care/Bed Capacity	RCFE/90 SNF/60	RCFE/180 SNF/120
Construction Complete	January 2012	March 2012
Resident Admission	February 2012	April 2012

*The 9.3 positions will be distributed as follows: 6.5 positions in VHC-Redding and 2.8 positions in CDVA HQ to address workload with VHC-Redding facility.
**The 8.5 positions will be distributed as follows: 4.5 positions in VHC-Fresno and 4 positions in CDVA HQ to address workload with the VHC-Fresno facility.

Background. The CDVA indicates that the positions in both of these requests are dedicated to the construction phase and intended to ensure that all aspects of the construction and business operations at both VHC-Redding and VHC-Fresno are compliant with federal, state, and local laws and regulations prior to opening. Additionally, because both of these homes are located nearly 200 miles away from HQ and longer distances from the existing homes in southern California, travel is included in these requests (including five motor vehicles for each home at a total cost of $184,000 GF) for those holding administrative positions in HQ and in Redding or in Fresno. In addition, temporary space will be needed until construction of both VHC-Redding and VHC-Fresno is completed in January 2012 and March 2012, respectively. For both of these requests, the CDVA has phased-in the staffing, with positions added at various points in the fiscal year as workload warrants.

Staff Comment. Staff generally agrees with the need to provide adequate staffing to CDVA to ensure that all aspects of the construction and business operations at both VHC-Redding and VHC-Fresno are compliant with all laws and regulations. The CDVA indicates that in the ramp up to construction of the VHC-Barstow, VHC-Chula Vista, and VHC-GLAVC facilities a similar ratio of staffing, between staff stationed in the field versus at CDVA HQ, was utilized. It is not clear however how these existing HQ staff, which were added as the VHC-GLAVC facilities were in various stages of development and construction, are now being utilized. For instance, can the HQ staff assigned to construction-related activities at VHC-

GLAVC, where construction is now largely complete, be re-purposed to those same activities for the VHC-Redding and VHC-Fresno homes? Additionally, staff notes the ten motor vehicles included in these requests and questions how they can be purchased given the Governor's July 2009 Executive Order (EO) which requires CDVA to reduce its vehicle fleet by 15 percent and prohibits leasing or purchasing any new vehicles for non-emergency use unless the purchase is necessary for fire/life/safety, funded with federal dollars, or will result in significant savings.

Committee Questions. Based on the above comments, the Committee may wish the Administration and CDVA to provide responses to the following questions:

1. What are the current responsibilities for HQ staff that were originally assigned to construction-related activities at VHC-GLAVC where construction is now largely complete? Can these staff be re-purposed to those same activities for the VHC-Redding and VHC-Fresno homes?
2. Will CDVA request an exemption from the Executive Order to purchase the ten vehicles in these requests?

Staff Recommendation: HOLD OPEN pending receipt of additional information from the Administration and Legislative Analyst's Office to determine if staffing resources contained in these requests, particularly those at CDVA HQ, are fully justified.